BRITISH COLUMBIA

Teachers' Pension Plan

Annual Report

2001

DOC
BC
S8T4
B
2001
c.3

LEGISLATIVE LIBRARY OF BRITISH COLUMBIA
3 3298 00266 3384

103-01388

Teachers' Pension Plan

2001 Annual Report

January 1, 2001 to December 31, 2001

Canadian Cataloguing in Publication Data
Main entry under title:
Teachers' Pension Plan annual report. — 1992-

Annual.
Title from cover.
Imprint varies: 1994-1998, Teachers' Pension Board; 1999- , British Columbia Pension Corporation.
Continues: Annual report of the business done in pursuance of the Pension (Teachers) Act. ISSN 0821-8862.
ISSN 1198-7057 = Teachers' Pension Plan annual report

1. Teachers – Pensions – British Columbia – Statistics – Periodicals. 2. British Columbia. Pension (Teachers) Act. 3. British Columbia. Public Sector Pension Plans Act. I. British Columbia. Superannuation Commission. II. British Columbia. Teachers' Pension Board. III. British Columbia Pension Corporation.

LB2844.C3T42 331.25'2913711 C94-960249-3

TABLE OF CONTENTS

Message from the Board 5

Financial and Operational Highlights 7

Roles and Responsibilities 10

Investments 11

- Message from the Chief Investment Officer 11
- Approved Investment Asset Mix 13
- Investment Portfolio 13
- Investment Performance 16

Actuarial Valuation/Plan Funding 18

Plan Participants 19

Plan Benefits 21

- Pensions 21
- Termination Benefits 24
- Portability Provisions 25
- Purchase of Additional Service 25

Financial Statements 26

MESSAGE FROM THE BOARD

The Teachers' Pension Board of Trustees is pleased to present our first annual report, covering the Teachers' Pension Plan fiscal year ending December 31, 2001. The board is responsible for the management of the pension fund, including the investment of assets and the administration of the pension plan. We welcome all new members to the Teachers' Pension Plan.

Joint Trusteeship

On April 5, 2001, the Teachers' Pension Plan's sole trustee appointed by the provincial government was replaced by a board of trustees. This historic event in the life of the Teachers' Pension Plan was made possible by provisions in the *Public Sector Pension Plans Act,* which paved the way for representatives of the plan stakeholders—government, employers, unions, plan member associations and members—to negotiate an agreement to share the governance of the plan as well as the gains or surpluses and liability for deficiencies in the pension fund, and simplified public sector pension plan administration and management. Under the joint trusteeship agreement, plan members and plan employers share equally in the administration and management of the pension plan.

The partners are the provincial government as the plan employer partner and the British Columbia Teachers' Federation as the plan member partner. The plan employer partner and the plan member partner each appoint five trustees, and the chair is chosen by the trustees. The chair may be selected from amongst the ten trustees or, as is the case at this moment in time, may be an eleventh non-voting member of the board.

Joint trusteeship simplifies, modernizes and enhances the governance of the pension plan. For more information, please refer to the booklet distributed during the summer of 2000, *Joint Trusteeship of the Teachers' Pension Plan,* or see the joint trusteeship information available in the "Publications" section at **pensions.bc.ca/teachers**, your pension web site.

We are pleased to report a busy first year as trustees of the Teachers' Pension Plan.

Membership

There are currently approximately 49,000 active plan members and 17,000 retired plan members. Active plan membership is projected to remain relatively stable over the next three years. The number of retired members increased by about 6% during the year and is projected to continue to grow by approximately 5% per year in the next three years.

Members' basic pension benefits are guaranteed. Other benefits, such as inflation protection to the basic pension and extended health, dental and Medical Services Plan coverage, are not guaranteed. The board monitors the ability to continue to provide these benefits on an ongoing basis.

Benefits Administration

The board continues to challenge the Pension Corporation to provide high standards of service delivery to plan members. We are pleased to report that, as a result of increases in staffing and streamlined processes, backlogs are being addressed, and we anticipate that they will be reduced over time. All new retired members who provided the necessary information received their first payment within one month of their retirement.

MESSAGE FROM THE BOARD

Group Benefits

The board approved changes to retired member health care coverage that take effect in April of 2002. The changes were necessary to maintain the costs of providing benefits within available funding.

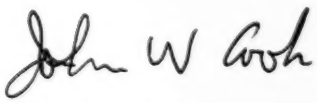
Retired member health benefits are financed from the 1.13% of the employers' contributions that would otherwise be allocated to the Inflation Adjustment Account, which provides for inflation protection.

The board will continue to monitor costs and make adjustments to ensure that health benefit costs are contained within the funds available.

Purchase of Service

The board approved changes to the purchase of service rules that should improve service to plan members. The new rules use a single costing method and a single purchase deadline, with simple and consistent purchase categories and eligibility rules. Members can calculate the cost of purchasing service on their own, without having to wait for a response from the Pension Corporation, giving them immediate access to the information needed to make a purchase decision.

It has been our experience over the past year that joint trusteeship gives you a strong and powerful voice in the running of your pension plan. We look forward to serving the Teachers' Pension Plan and its members. If you would like to contact us, please use the addresses on the back page of this report.



John W. Cook, Chair

TRUSTEES AS AT DECEMBER 31, 2001

John W. Cook	Chair
Joan Axford	Secretary–Treasurer, School District No. 63 (Saanich)
John Bogunovic	Teacher, School District No. 33 (Chilliwack)
Wayne Jefferson	Secretary–Treasurer, School District No. 36 (Surrey)
Jacquie Kendall	Executive Financial Officer, Ministry of Agriculture, Food and Fisheries
Bruce Kennedy	Executive Director, Public Sector Employers' Council Secretariat
Dale Lauber	Director, Income Security Division, British Columbia Teachers' Federation
Gerry Tiede	Administrative Officer, School District No. 36 (Surrey)
Tom Vincent	Assistant Deputy Minister, Management Services Division, Ministry of Education
Bruce Watson	Retired
Linda Watson	Teacher, School District No. 44 (North Vancouver)

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The Teachers' Pension Plan is financially sound. An interim actuarial report, delivered to the board of trustees on October 23, 2001, indicated that the financial health of the plan had improved. This interim actuarial report brought forward the December 1999 results to December 2000, using the same 1999 assumptions but also updating actual asset values, general wage increases and the increase in employer contribution rates effective in 2001. On that basis, the updated results to December 31, 2000, indicate a $216 million surplus for basic pension benefits. The December 31, 1999, full valuation indicated a $454 million unfunded liability.

This means that the first financial goal under the joint trusteeship agreement—to eliminate the unfunded liability—has been achieved. An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates that all promised benefits are funded.

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The next full actuarial valuation will be as at December 2002, and results are anticipated in early 2004.

Investments

The Teachers' Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The portfolio decreased from $11.1 billion in 2000, to $10.8 billion at December 31, 2001, primarily as a result of negative annual investment returns. While short-term returns may continue to be more subdued, pension plans have long-term investment horizons and should focus on the longer term. The five-year annualized rate of return was 8.6%.

Investments

	Performance Benchmarks	December 31	
	2001	2001	2000
Market Value ($ Billions)		**$10.8**	**$11.1**
Market Value Rates of Return			
Basic Account			
Annual	**(3.7%)**	(2.1%)	7.0%
Five-year Average	**8.4%**	8.6%	12.8%
Inflation Account			
Annual	**(4.0%)**	(2.1%)	7.2%

FINANCIAL AND OPERATIONAL HIGHLIGHTS

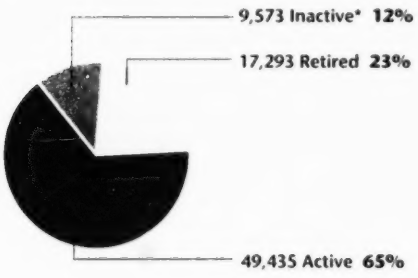
Latest Actuarial Valuation–December 31, 1999

$ Billions

	Basic Pension Benefits Net Unfunded Liability	
	1999	1996
For Funding Purposes*	$0.45	$1.34
Ratio of Unfunded Liability to Covered Payroll*	21%	66%
Based on Accrued Benefits to December 31	$0.49	$1.42

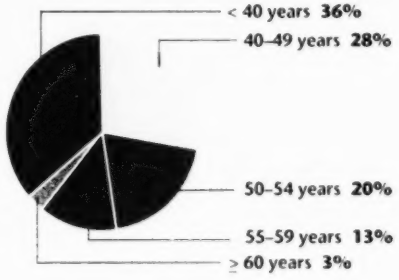
* ASSUMING CONTRIBUTIONS CONTINUE AT EXISTING RATES IN EFFECT AT THE VALUATION DATE.

2001 Membership Profile



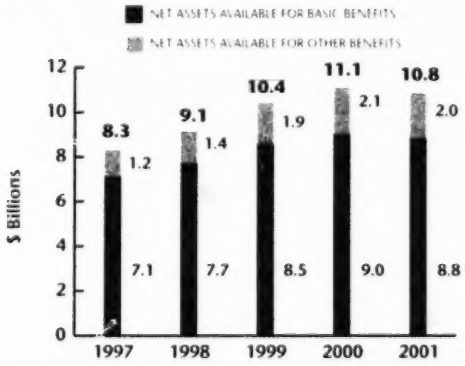
* MEMBERS NO LONGER EMPLOYED, BUT WITH MONEY IN THE PLAN.

2001 Age Profile of Active Members



Net Assets Available for Benefits

as at December 31, 1997–2001



FINANCIAL AND OPERATIONAL HIGHLIGHTS

Five-year Summary Statement of Changes in Net Assets Available for Benefits
(unaudited)

$ Thousands

For the year ended December 31	**2001**	2000	1999	1998	1997
Increase in Assets					
Net Investment Income (Loss)					
Total Investment Income	**(204,739)**	$ 750,650	$ 1,324,510	$ 804,742	$1,074,963
Investment Management Costs	**(15,433)**	(14,992)	(11,881)	(12,236)	(11,625)
	(220,172)	735,658	1,312,629	792,506	1,063,338
Contributions					
Members	**158,978**	140,294	145,989	144,052	144,083
Employers	**225,227**	205,886	204,396	202,263	199,083
Province of British Columbia	**10,527**	–	–	9,692	–
Transfers from Other Plans	**7,470**	8,613	16,895	11,261	7,367
Total Increase in Assets	**182,030**	1,090,451	1,679,909	1,159,774	1,413,871
Decrease in Assets					
Pension Benefits	**399,046**	370,044	335,797	301,238	270,853
Termination Benefits	**13,552**	10,163	12,921	12,971	11,451
Transfers to Other Plans	**5,284**	7,605	2,936	3,695	3,733
Retired Member Group Benefits	**22,954**	20,528	18,461	15,727	14,361
Benefit Administration Costs	**6,325**	5,638	5,826	6,345	4,725
Total Decrease in Assets	**447,161**	413,978	375,941	339,976	305,123
Increase (Decrease) in Net Assets	**(265,131)**	676,473	1,303,968	819,798	1,108,748
Net Assets Available for Benefits at Beginning of Year	**11,088,952**	10,412,479	9,108,511	8,288,713	7,179,965
Net Assets Available for Benefits at End of Year	**$10,823,821**	$11,088,952	$10,412,479	$9,108,511	$8,288,713
		As a Percentage of Net Assets			
Benefit Administration Costs	**0.06%**	0.05%	0.06%	0.07%	0.06%
Investment Management Costs	**0.14%**	0.14%	0.11%	0.13%	0.14%

ROLES AND RESPONSIBILITIES

The Teachers' Pension Plan became a jointly trusteed pension plan on April 5, 2001, under a joint trust agreement between the partners authorized under the *Public Sector Pension Plans Act*. The agreement describes the composition, appointment, powers, functions and duties of the trustees to manage the pension plan and fund.

The partners are responsible for appointing the trustees, directing amendments to the plan if certain conditions are met, and resolving trustee disputes. The Teachers' Pension Board of Trustees is fully responsible for the management of the pension fund, including the investment of the assets, and the administration of the pension plan.

The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The British Columbia Pension Corporation is the sole provider of administrative services to the pension plan, and is directly answerable to the board of trustees for benefit administration service levels.

The British Columbia Investment Management Corporation is directly answerable to the board of trustees for providing investment management services within asset mix policies approved by the trustees.

INVESTMENTS

Message from the Chief Investment Officer

Market Review

Despite some occasional financial shocks (e.g., Asian crisis), the 1990s was an incredible decade for capital markets. The boom was attributable to many factors including a prolonged economic expansion and productivity increases resulting from technological innovations, globalization, and expanded world trade. Markets also benefited from positive demographic trends, improved fiscal performance, as well as declining inflation, unemployment, and interest rates.

The positive economic and investment environment bolstered investor confidence and resulted in a significant shift in investment activity from fixed income securities to equities. Some companies' shares were pushed to very high valuations, based on the expectation that their earnings would continue to experience strong growth. This was particularly prevalent in technology companies and led to warnings from the US Federal Reserve Chair about investors' "irrational exuberance".

Most equity markets reached a cyclical peak in 2000. Since that time stock markets have been very volatile and there have been significant corrections in the underlying valuations. In terms of economic conditions, there has been a marked reduction in capital spending and economic growth during the past two years. One of the biggest concerns has been the fact that this has been a synchronized downturn, as essentially all industrial countries have experienced an economic slowdown. This prompted central banks to aggressively cut interest rates. For example, the US Federal Reserve cut the federal funds rate 11 times in 2001, dropping the benchmark rate from 6% to 1.7%.

Stock prices dropped precipitously in September, following the terrorist attack on the World Trade Center. There was a strong rebound in the fourth quarter of 2001, although it generally was not sufficient to offset the earlier losses. For example, the TSE 300 was up 12.9% in the fourth quarter but down 12.6% on an annual basis. In Canadian dollar terms, the S&P 500 index was up 11.8% in the fourth quarter but down 6.4% for the year.

The impact of weak equity markets on the Teachers' Pension Fund was mitigated by holding a diversified portfolio and by other defensive measures taken by the British Columbia Investment Management Corporation (bcIMC). Specifically, bcIMC created several new pooled portfolios and modified some external manager mandates to reduce the Fund's exposure to technology and telecommunication companies. Therefore, while the basic account had a disappointing return in 2001 (-2.1%) it still beat its benchmark (-3.7%) by a significant margin.

While 2001 returns were disappointing, the diversified approach to fund management has provided strong long-term results. For example, the 10-year annualized return of the Basic Account is still 9.5%. In addition, the correction has actually improved long-term prospects by eliminating some excesses in equity markets.

While we are hopeful that the worst may be behind us, we also believe that returns over the next decade will be much more subdued than was experienced in the 1990s. We also expect that markets will continue to exhibit a high degree of volatility. Maintaining a diversified portfolio and disciplined approach is critical to protecting the pension fund assets in these uncertain times.

Organizational Review

The bcIMC is an independent trust company and is governed by a consortium of clients. Its Board consists of seven directors, including a representative of the Teachers' Pension Board of Trustees. However, in terms of investment activity, we are an agent of the Teachers' Pension Plan and are directly accountable to the Teachers' Pension Board of Trustees. In fact, we feel that our primary role is to serve as the Plan's internal investment staff.

The revised governance structure is functioning well and has led to a significant strengthening of the organization. Clearly, having a more dynamic and flexible organization is critical in meeting the challenges of managing global portfolios in today's volatile markets.

Looking forward, we have several strategic objectives for the current year and the future. The first is to continue improving risk management operations. The second is to meet the challenges of one-day security settlement and straight-through processing. Finally, we will continue to emphasize our goal of being a responsible investor and take a more active role in corporate governance. Unfortunately, not enough institutional investors dedicate adequate resources to fulfill this important fiduciary duty.

More information about the agency, our investment team and our management approach can be found at our web site: www.bcimc.com.

Doug Pearce

Chief Investment Officer/Chief Executive Officer
British Columbia Investment Management Corporation

INVESTMENTS

Approved Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges shown in the Approved Basic Account Investment Asset Mix table. Short-term for asset mix purposes includes government bonds with one- to five-year terms and money market funds.

Approved Basic Account Investment Asset Mix

Asset Class	Market Value Lower Limit	Market Value Upper Limit
Debt	**25%**	**45%**
Short-term	0%	10%
Bonds	15%	30%
Mortgages	0%	10%
Equity	**55%**	**75%**
Canadian Equities	15%	30%
U.S. Equities	5%	20%
International Equities	10%	25%
Real Estate	5%	12%
Private Placements	0%	6%

Investment Portfolio

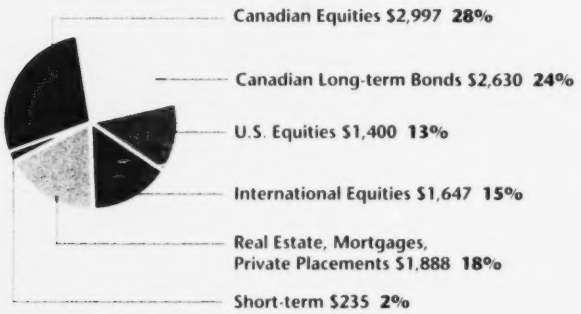
Investments Held as at December 31, 2001

	Market Value	Asset Mix % Market Value
Money Market	$ 99,408,919	1%
Canadian Bonds		
Government	1,720,648,817	16%
Corporate	349,591,293	3%
Long-term	327,593,242	3%
Short-term (1 to 5 years)	135,549,205	1%
Canadian Equities		
Indexed	2,071,464,223	19%
Actively Managed	925,214,110	9%
U.S. Equities		
Indexed	873,326,253	8%
Actively Managed	526,268,040	5%
International Equities		
Asia	261,728,226	2%
Europe	516,276,015	5%
Europe, Australia and the Far East	868,610,069	8%
Real Estate	1,094,127,359	10%
Mortgages	417,168,052	4%
Private Placements	373,374,564	4%
Total Pooled Portfolios	$10,560,348,387	98%
Canadian Real Return Bonds	232,640,574	
Real Estate	3,433,349	2%
Total Investments	$10,796,422,310	100%
2000 Comparison	$11,065,724,872	

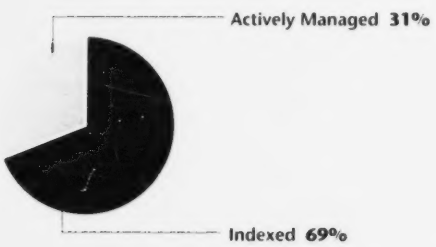
INVESTMENTS

2001 Investment Holdings (Market Value)

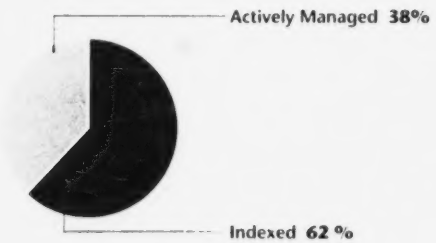
$ Millions



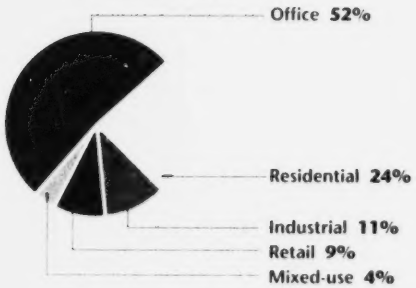
Canadian Equities (Market Value)



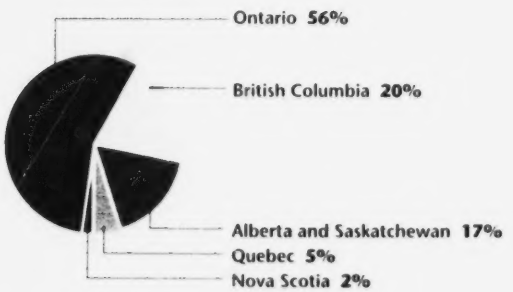
U.S. Equities (Market Value)



Real Estate, by Type



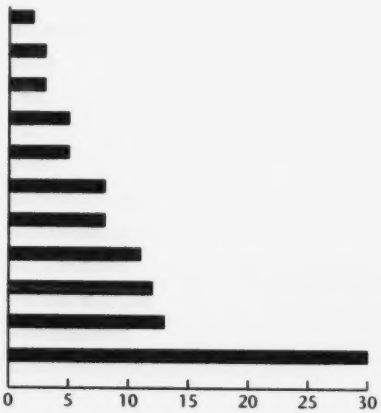
Real Estate, by Location



INVESTMENTS

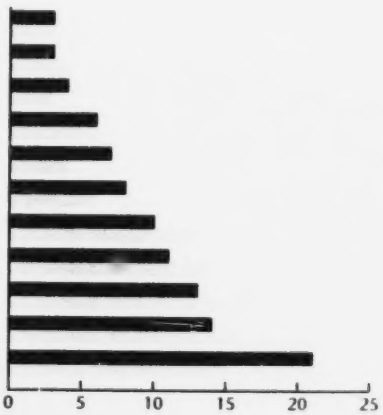
Canadian Equities, by Sector

	Indexed	Actively Managed
Other	2%	7%
Health Care	3%	4%
Consumer Staples	3%	3%
Utilities	5%	2%
Telecommunications	5%	4%
Consumer Discretionary	8%	11%
Industrial Products	8%	10%
Information Technology	11%	10%
Energy	12%	12%
Materials	13%	10%
Financial Services	30%	27%
	100%	100%



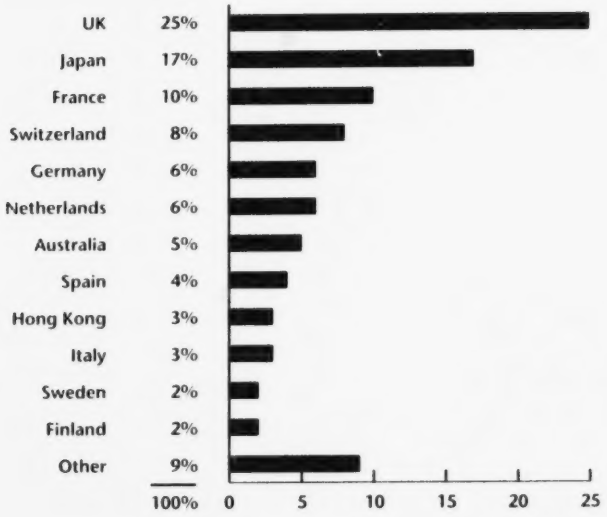
U.S. Equities, by Sector

	Indexed	Actively Managed
Other	3%	3%
Materials	3%	4%
Utilities	4%	3%
Consumer Staples	6%	6%
Telecommunications	7%	4%
Energy	8%	6%
Health Care	10%	13%
Industrials	11%	14%
Consumer Discretionary	13%	16%
Information Technology	14%	16%
Financial Services	21%	15%
	100%	100%



INVESTMENTS

International Equities



Investment Performance

Net Earned Rate of the Fund

Year	%
1992	8.0
1993	7.3
1994*	10.2
1995	11.2
1996	11.7
1997	14.0
1998	11.6
1999	14.6
2000	12.8
2001	**8.6**

* FROM 1994 ONWARD, THE RATES OF RETURN ARE BASED ON A FIVE-YEAR AVERAGE

Market Value Rates of Return for the Year Ended December 31, 2001

	Basic Account	Inflation Adjustment Account	Basic Account Performance Benchmarks	
Five-year Average Rates				
2001	**8.6%**	**8.5%**	**8.4%**	
2000 Comparison	12.8%	12.8%	12.6%	
Annual Rates				
2001	**-2.1%**	**-2.1%**	**-3.7%**	
2000 Comparison	7.0%	7.2%	5.0%	
2001 Annual Rates by Investment Category				**2001 Performance Benchmark Indices**
Short-term				
Money Market	5.0%	5.0%	4.7%	SCI 91-Day Treasury Bills
Bonds	9.5%	9.5%	9.2%	SCI Government Short-term
Bonds				
Government	7.8%	7.8%	7.7%	SCI Government Universe
Corporate	9.6%	9.6%	9.3%	SCI Corporate Universe
Long-term	5.8%	5.8%	5.7%	SCI Government Long-term
Real Return	0	0.3%	0.6%	SCI Real Bond
Canadian Equities				
Actively Managed	-1.8%	-1.8%	-8.4%	TSE 300 Capped
Indexed				
TSE 300	-12.3%	-12.3%	-12.6%	TSE 300
U.S. Equities				
Actively Managed	-4.6%	-4.6%	-7.0%	R 1000
Indexed	-6.3%	-6.3%	-6.4%	S&P 500
Value	-6.4%	-6.4%	-6.2%	S&P 500 Value
Enhanced	-8.4%	-8.4%		
International Equities				
Asia	-12.9%	-12.9%	-20.2%	MSCI Pacific Basin Net
Europe	-16.0%	-16.0%	-15.3%	MSCI Europe Net
Europe, Australia and the Far East	-13.9%	-13.9%	-16.5%	MSCI EAFE Net
Real Estate	8.0%	8.04%	4.7%	CPI + 4%
Mortgages				
Fixed-term	9.3%	9.4%	10.5%	SCI Short-term Bonds + 1%
Construction	6.6%	6.6%	8.1%	SCI One-year Bill + 1%
Specialty	10.3%	10.3%	9.7%	SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
MSCI EAFE	=	Morgan Stanley Capital International Europe, Australia & Far East
R	=	Russell
TSE	=	Toronto Stock Exchange

(SOURCE OF ANNUAL RATES: BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION)

ACTUARIAL VALUATION/PLAN FUNDING

The Teachers' Pension Plan is financially sound. An interim actuarial report, delivered to the board of trustees on October 23, 2001, indicated that the financial health of the plan had improved. This interim actuarial report brought forward the December 1999 results to December 2000, using the same 1999 assumptions but also updating actual asset values, general wage increases and the increase in employer contribution rates effective in 2001. On that basis, the updated results to December 31, 2000, indicate a $216 million surplus for basic pension benefits. The December 31, 1999, full valuation indicated a $454 million unfunded liability.

This means that the first financial goal under the joint trusteeship agreement—to eliminate the unfunded liability—has been achieved. An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates that all promised benefits are funded.

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The next full actuarial valuation will be as at December 2002, and results are anticipated in early 2004.

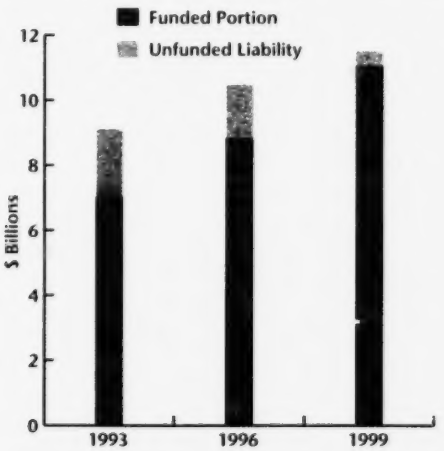
Latest Full Actuarial Valuation–December 31, 1999, Basic Pension Benefits

$ Billions

	Basic Pension Benefits Net Unfunded Liability		
	1999	1996	1993
For Funding Purposes*	$0.45	$1.34	$1.72
Ratio of Unfunded Liability to Covered Payroll*	21%	66%	92%
Based on Accrued Benefits to December 31	$0.49	$1.42	$1.78

* ASSUMING CONTRIBUTIONS CONTINUE AT RATES IN EFFECT AT THE VALUATION DATE

Funding of the Total Basic Benefit Liability



PLAN PARTICIPANTS

Membership in the Teachers' Pension Plan is open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system, and to eligible employees of other employers approved by the Teachers' Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

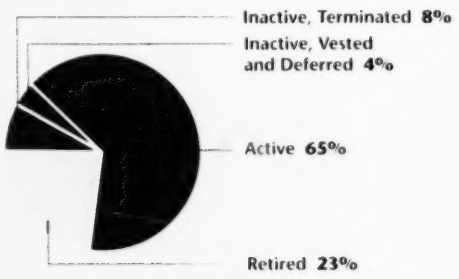
Participating employers are the school districts, the British Columbia College of Teachers, the Teacher Qualification Service (British Columbia), the British Columbia School Superintendents' Association, the British Columbia Principals' and Vice-Principals' Association, the Francophone Education Authority and the British Columbia Teachers' Federation.

There are three types of plan members in the Teachers' Pension Plan:

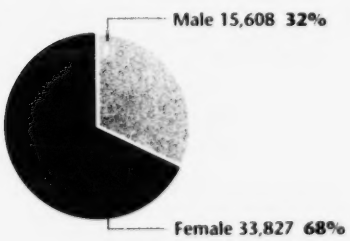
- Active members are currently contributing, receiving benefits from an approved salary continuance plan or are on a leave of absence.
- Inactive members have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Teachers' Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interplan Pension Transfer Agreement. From 1998 onward, the number of vested and deferred members has been adjusted to include these inactive members.
- Retired members are receiving a pension.

The number of active plan members in the Teachers' Pension Plan increased by about 1% in 2001. Today there are approximately 49,000 active plan members and over 17,000 retired members.

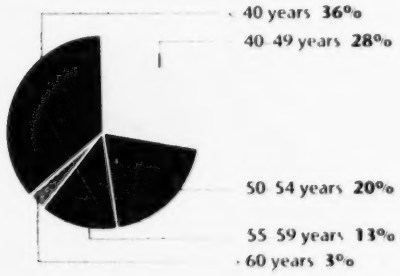
2001 Member Profile



2001 Active Member Profile



2001 Age Profile of Active Members

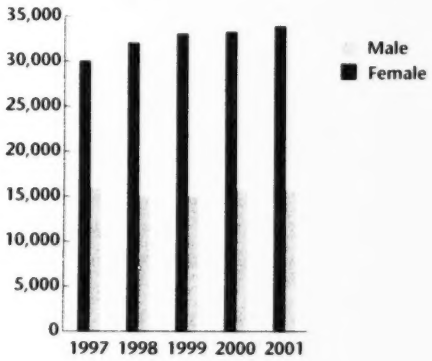


PLAN PARTICIPANTS

Number of Members

	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
1997	46,510	11,288	1,019	13,310	71,497
1998	46,986	11,239	966	14,389	73,580
1999	47,412	8,142	2,667	15,800	74,021
2000	48,888	6,492	2,834	16,325	74,539
2001	**49,435**	**6,486**	**3,087**	**17,293**	**76,301**

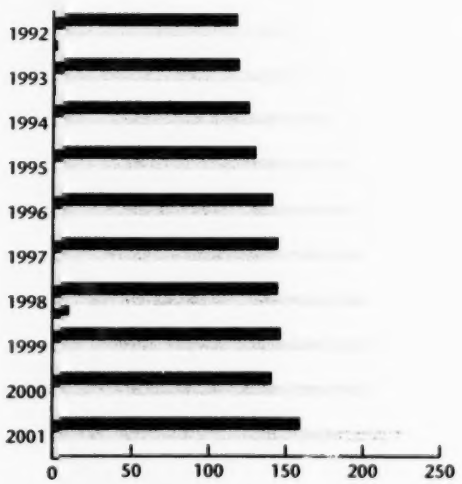
Active Members



Contributions

$ Millions

Member	Employer	Early Retirement Funding From the Province
117.43	164.25	2.55
118.61	167.07	0.90
125.32	179.47	–
129.60	187.81	–
140.52	195.26	–
144.08	199.08	–
144.05	202.26	9.69
145.99	204.40	–
140.29	205.89	–
$158.98	$225.23	



PLAN BENEFITS

The Teachers' Pension Plan is a defined benefit pension plan. Benefits are based on the member's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

Pensions

The number of pensioners continues to grow. The number of pensions granted in 2001 increased 51% from the number granted in 2000, which was an exceptionally low year as a result of an early incentive retirement program in 1999. The number of pensioners on payroll increased 6%.

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible
- the month following the month in which the plan member receives the final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement.

Average Values of Regular Pensions Granted January 1, 2001 to December 31, 2001
Subdivided by years of service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
< 10 years	28	$36,000	$ 4,000	$ 52,000	$ 1.5
10–14	69	46,000	10,000	145,000	10.0
15–19	87	51,000	16,000	217,000	18.9
20–24	117	57,000	21,000	293,000	34.3
25–29	162	62,000	27,000	388,000	62.9
30–34	521	64,000	33,000	508,000	264.7
≥ 35 years	113	69,000	40,000	565,000	63.8
Total	1,097	n/a	n/a	n/a	$456.0
All Pension Average	n/a	$61,000	$28,000	$416,000	n/a

* YEARS OF SERVICE INCLUDES SERVICE TRANSFERRED FROM OTHER PLANS

The accompanying table shows the average asset value ("present value") of pensions granted during 2001. The value represents approximately how much it would cost to purchase an average basic pension provided under the Teachers' Pension Plan.

PLAN BENEFITS

Pensions 1992–2001

	Granted during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Total ($ Millions)
1992	506	181	10,136	133.4	49.7	183.1
1993	503	201	10,438	140.5	50.9	191.4
1994	668	228	10,878	150.1	52.9	203.0
1995	1,050	207	11,721	170.3	51.9	222.2
1996	970	228	12,463	192.0	54.9	246.9
1997	1,048	201	13,310	214.2	56.7	270.9
1998	1,370	291	14,389	242.2	58.8	301.2
1999	1,673	262	15,800	277.4	58.4	335.8
2000	831	291	16,340	305.8	64.2	370.0
2001	**1,230**	**265**	**17,305**	**327.6**	**71.4**	**399.0**

Pensions Granted, by Type 1992–2001

	Regular*	Death*	Disability	LTD+	Deferred	Total
1992	369	33	11	27	66	506
1993	369	17	15	28	74	503
1994	540	15	13	30	70	668
1995	883	18	5	56	88	1,050
1996	787	13	9	60	101	970
1997	896	14	5	52	81	1,048
1998	1,207	19	5	54	85	1,370
1999	1,494	9	3	83	84	1,673
2000	717	13	3	67	31	831
2001	**1,097**	**22**	**0**	**61**	**50**	**1,230**

* PENSIONS GRANTED DO NOT INCLUDE ANY PENSION CONTINUED TO A BENEFICIARY UPON THE DEATH OF A PENSIONER
+ LTD PENSIONS ARE FOR THOSE MEMBERS ON LONG-TERM DISABILITY WHO BECAME ELIGIBLE FOR A REGULAR PENSION

PLAN BENEFITS

2001 Regular Pensions Granted by Age at Retirement

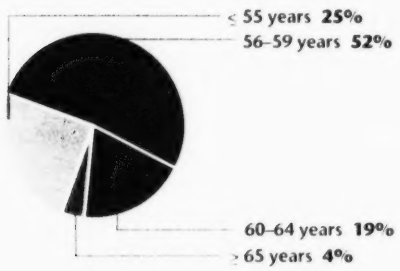
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65	Total
< 10 years	8	9	9	2	28
10–14	16	18	29	6	69
15–19	28	39	17	3	87
20–24	39	43	31	4	117
25–29	49	57	43	13	162
30–34	111	347	59	4	521
> 35 years	18	62	26	7	113
Total	269	575	214	39	1,097

Percentage of 2001 Normal Pensions by Years of Service

<10 years	3%
10–14	6%
15–19	8%
20–24	11%
25–29	15%
30–34	47%
> 35 years	10%
Total	100%

Percentage of 2001 Regular Pensions Granted by Age



Termination Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

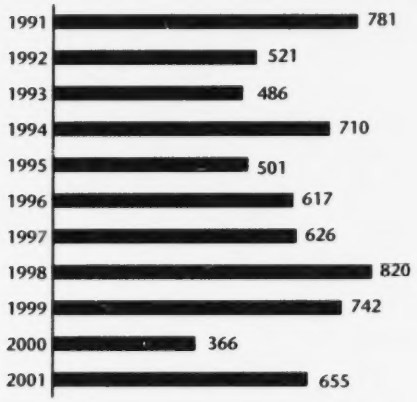
The number and value of termination benefits paid can vary from year to year, depending on the employment environment, the type of termination benefit paid and the plan member's entitlement. Typically, commuted values, which represent the net present value of a pension entitlement, have significantly higher dollar values than members' personal accumulated contributions.

The numbers and value of termination benefits paid in 2001 increased significantly compared to 2000.

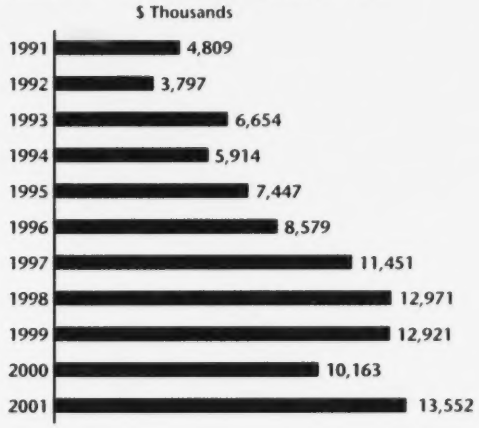
If a member leaves the plan and is eligible for a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the plan member's Annual Benefit Statement.

The rate of interest is governed by provincial pension standards and plan rules. It is based on average five-year bank personal term deposit rates.

Number Of Termination Benefits Paid



Value Of Termination Benefits Paid



TERMINATION BENEFITS PAID INCLUDE ONLY REFUNDS OF CONTRIBUTIONS AND COMMUTED VALUE PAYMENTS; DEFERRED PENSIONS ARE INCLUDED IN PENSION STATISTICS.

Annual Rates for Interest Credited to Contribution Balances

1992	6.00%	1997	4.54%
1993	5.45%	1998	4.30%
1994	6.49%	1999	4.56%
1995	6.88%	2000	5.28%
1996	5.47%	**2001**	**4.00%**

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Teachers' Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Teachers' Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Teachers' Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2001, there were 130 reciprocal transfers-in from other agencies and 120 transfers-out. The transfers-in totalled approximately $7.5 million; transfers-out totalled approximately $5.3 million. As a result of changes in interplan portability provisions, transfers now include those between the Teachers' Pension Plan and three other BC public sector plans (College, Municipal, and Public Service).

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- approved leaves of absence
- arrears contributions, or
- reinstatement of refunded contributions.

The number and value of purchases of additional service increased in 2001.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ Thousands)	
	2001	2000	**2001**	2000
Approved Leaves of Absence	**416**	543	**$1,635**	$2,209
Arrears Contributions	**39**	35	**240**	271
Reinstatement of Refunded Contributions	**313**	144	**3,809**	2,207
Total	**768**	722	**$5,684**	$4,507

FINANCIAL STATEMENTS

KPMG LLP
Chartered Accountants
St. Andrew's Square I
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Teachers' Pension Plan

We have audited the statement of net assets available for benefits of the Teachers' Pension Plan as at December 31, 2001 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2001 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at and for the year ended December 31, 2000 were reported on by the Auditor General of British Columbia.

KPMG LLP

Chartered Accountants

Victoria, Canada

June 21, 2002

PENSION
CORPORATION

Executive
Offices

Mailing Address
PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location
2995 Jutland Road
Victoria BC
V8T 5J9

Phone
250 387 8201
1 800 663-8823
Fax
250 387 4199

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees for the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the auditors' report attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.
Vice-President, Information Management,
Finance and Administration
British Columbia Pension Corporation

June 21, 2002

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	2001	2000
ASSETS		
Investments (Note 3)	$ 10,796,423	$ 11,065,725
Receivables		
Members' contributions	13,975	11,723
Employers' contributions	19,678	17,333
Accrued investment income	786	822
Due from sale of investments	2,371	5,093
Other	24	2
	36,834	34,973
Prepaid expense	1,695	932
Cash	6,249	2,325
Total Assets	10,841,201	11,103,955
LIABILITIES		
Payable for purchase of investments	10,000	7,300
Accounts payable and accrued expenses (Note 9)	7,380	7,703
Total Liabilities	17,380	15,003
NET ASSETS AVAILABLE FOR BENEFITS	$ 10,823,821	$ 11,088,952

Obligations for Pension Benefits for Funding Purposes (Note 7)
Obligations for Pension Benefits for Accounting Purposes (Note 8)
Commitments (Note 11)

All accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.
Chair,
Teachers' Pension Board of Trustees

Jacquie Kendall
Trustee,
Teachers' Pension Board of Trustees

Bruce Watson
Trustee,
Teachers' Pension Board of Trustees

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2001	Totals 2000
INCREASE (DECREASE) IN ASSETS					
Net investment income (loss) (Note 4)	$ (186,098)	$ (34,074)	$ -	$ (220,172)	$ 735,658
Contributions (Note 5)					
Members'	124,961	34,017	-	158,978	140,294
Employers'	199,873	2,285	23,069	225,227	205,886
Province of British Columbia	10,527	-	-	10,527	-
	335,361	36,302	23,069	394,732	346,180
Transfers from other plans	6,560	910	-	7,470	8,613
Total Increase in Assets	155,823	3,138	23,069	182,030	1,090,451
DECREASE IN ASSETS					
Pension benefits					
Contributory	327,601	-	48	327,649	305,822
Indexing supplements	71,397	-	-	71,397	64,222
	398,998	-	48	399,046	370,044
Termination benefits	9,767	3,785	-	13,552	10,163
Transfers to other plans	3,993	1,381	-	5,284	7,605
Retired member group benefits (Note 10)	-	-	22,954	22,954	20,528
Benefit administration costs (Note 9)	6,258	-	67	6,325	5,638
Total Decrease in Assets	418,926	5,166	23,069	447,161	413,978
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	(263,103)	(2,028)	-	(265,131)	676,473
Account transfers (Note 6)	51,009	(51,009)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(212,094)	(53,037)	-	(265,131)	676,473
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8,991,482	2,097,470	-	11,088,952	10,412,479
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 8,779,388	$ 2,044,433	$ -	$ 10,823,821	$ 11,088,952

Supplemental Benefits Account (Note 10)

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The *Public Sector Pension Plans Act* was passed by the BC legislature on July 15, 1999. Effective April 1, 2000, the existing *Pension (Teachers') Act* and related regulations, which had previously governed the pension plan, were repealed and the Teachers' Pension Plan became governed by Schedule D of the new act. The act allowed for named partners (the provincial government and the BC Teachers' Federation) to negotiate and enter into a Joint Trust Agreement. Effective April 5, 2001, a Joint Trust Agreement was implemented and now governs the pension plan. The pension plan rules are made under the authority of that agreement. The agreement also describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees. As a result, Part 1 of Schedule D of the act and related regulations to the schedule were repealed.

a) General

The plan is a contributory defined benefit pension plan open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The partners are responsible for appointing the trustees other than the chair, directing amendment to the plan if certain conditions are met and resolving trustee disputes. The Teachers' Pension Board of Trustees consists of up to eleven members. Ten members representing plan members and plan employers are appointed by the partners. The eleventh member, the chair, is appointed by the other trustees. The board is fully responsible for the management of the pension plan, including investment of the assets and administration of the pension plan. The board may amend the pension plan rules as long as changes can be funded by pension fund surplus. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

The British Columbia Pension Corporation (Pension Corporation) is the provider of benefit administration services to the pension plan. The Pension Corporation is answerable to the board for benefit administration service levels.

The British Columbia Investment Management Corporation (bcIMC) is answerable to the board for providing investment management services within investment policies approved by the trustees.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

c) Contributions

Basic Account

Members contribute to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($38,300 in 2001) and 6.5% of salaries above that.

From January 1 to May 31, 2001, employer contributions to the Basic Account were 8.0% of salaries up to the YMPE and 9.5% of salaries above that, less amounts allocated to the Supplemental Benefits Account. From June 1, 2001 contributions were 9.0% up to the YMPE and 10.5% over the YMPE, less amounts allocated to the Supplemental Benefits Account (2001 - $66 thousand; 2000 - $51 thousand). (See note 10).

The provincial government also contributed an additional $10.5 million of contributions to the Basic Account (see Note 5).

Inflation Adjustment Account and Supplemental Benefits Account

From January 1, 2001 to May 31, 2001 members contributed 1% of salaries to the Inflation Adjustment Account. Effective June 1, 2001 this rate increased to 2% of salaries. Employers contributed 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (2001 - $23.0 million; 2000 - $20.6 million). (See note 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit. Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service equalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

d) Pension Benefits (continued)

Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2001, retired members received a full CPI increase of 2.7% (2000 – 2.6%); at January 1, 2002, retired members will receive a full CPI increase of 2.6%.

e) Termination and Portability Benefits

A terminating member who has not reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose one or more of the following benefits:

- a deferred pension; or
- a refund of member's contributions with interest;
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in RRSP or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the plan.

f) Other Benefits

Disability and survivor benefits are also available under the plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

g) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The RPP is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the pension plan as a separate financial reporting entity, independent of the plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the plan, and does not purport to show their adequacy to meet the obligations of the plan.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

3. INVESTMENTS (Market Value)

	2001			2000
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 73,607	$ 25,802	$ 99,409	$ 156,383
Canadian Bonds	2,163,662	602,361	2,766,023	3,102,717
Canadian Equities	2,870,976	581,900	3,452,876	3,481,370
U.S. Equities	750,196	193,200	943,396	1,265,800
International Equities	1,331,928	314,687	1,646,615	1,406,316
Mortgages	337,224	79,945	417,169	366,755
Real Estate	897,569	199,992	1,097,561	959,021
Private Placements	370,723	2,651	373,374	327,363
	$8,795,885	$2,000,538	$10,796,423	$11,065,725

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist primarily of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued at least semi-annually by the real estate investment managers and, on average, annually by external appraisal to establish current market values. Private placements are valued annually.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

4. INVESTMENT INCOME

	2001			2000
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 6,628	$(200,047)	$(193,419)	$ 10,899
Canadian Bonds	135,821	40,080	175,901	240,313
Canadian Equities	47,097	(41,733)	5,364	442,668
U.S. Equities	13,320	(88,991)	(75,671)	(42,765)
International Equities	21,786	(199,313)	(177,527)	(157,522)
Mortgages	21,331	1,127	22,458	32,072
Real Estate	43,154	21,337	64,491	61,686
Private Placements	2,823	2,204	5,027	47,501
	$291,960	$(465,336)	$(173,376)	$634,852
Investment Management Costs			(12,722)	(12,564)
Net Investment Income (Loss)			$(186,098)	$622,288
Inflation Adjustment Account				
Short-term	$ 1,487	$ (54,818)	$ (53,331)	$ 1,917
Canadian Bonds	34,057	(4,524)	29,533	60,073
Canadian Equities	9,560	14,143	23,703	77,242
U.S. Equities	2,992	(17,159)	(14,167)	(10,660)
International Equities	4,898	(41,944)	(37,046)	(31,428)
Mortgages	4,723	1,092	5,815	5,735
Real Estate	9,768	4,815	14,583	12,919
Private Placements	5	(458)	(453)	-
	$ 67,490	$ (98,853)	$ (31,363)	$115,798
Investment Management Costs			(2,711)	(2,428)
Net Investment Income (Loss)			$ (34,074)	$113,370
Total Basic and Inflation Adjustment Accounts				
Total Investment Income (Loss)			$(204,739)	$750,650
Total Investment Management Costs (Note 9)			(15,433)	(14,992)
Total Net Investment Income (Loss)			$(220,172)	$735,658

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

5. CONTRIBUTIONS

	2001				2000
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Members' contributions					
Regular	$120,460	$33,709	$ -	$154,169	$137,051
Arrears	54	6	-	60	111
Purchase of service	135	26	-	161	8
Leave of absence	661	118	-	779	1,097
Reinstatement	3,651	158	-	3,809	2,027
	124,961	34,017	-	158,978	140,294
Employers' contributions					
Regular	198,762	2,124	-	200,886	183,999
Arrears	164	16	-	180	160
Purchases of service	209	27	-	236	-
Leave of absence	738	118	-	856	1,104
Supplemental benefits	-	-	23,069	23,069	20,623
	199,873	2,285	23,069	225,227	205,886
Province's contributions					
Regular	10,527	-	-	10,527	-
	10,527	-	-	10,527	-
	$335,361	$36,302	$23,069	$394,732	$346,180

Employer regular Inflation Adjustment Account contributions were $25.3 million of which $23.0 million was allocated to the Supplemental Benefits Account.

In accordance with the Joint Trust Agreement, the provincial government also contributed $10.5 million to the Basic Account for the period January 1, 2001 to May 31, 2001. This represents an amount equal to the 1% increase in employer contribution rate for employers who were boards of school trustees for that period.

6. ACCOUNT TRANSFERS

	2001		2000	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
		($ Thousands)		
Present value of current indexing supplements	$ 88,422	$(88,422)	$ 77,465	$(77,465)
Indexing of deferred pensions	2,585	(2,585)	231	(231)
Excess interest	(39,998)	39,998	(177,595)	177,595
	$ 51,009	$(51,009)	$ (99,899)	$ 99,899

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

6. ACCOUNT TRANSFER (CONTINUED)

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $3.6 billion of assets for 2001; $3.3 billion for 2000). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.5%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 2001 was 1.1% (2000 – 5.3%). Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 1999. This valuation disclosed an unfunded liability for basic pension benefits of $0.5 billion (1996 - $1.3 billion), assuming future contributions at the contribution rates in effect at the valuation date.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The following table shows a key indicator of the financial health of a pension plan, the Basic Account unfunded actuarial liability (UAL) as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account UAL (y)	Covered Payroll (z)	UAL as a Percentage of Payroll (y/z)
		($ Billions)			
1993	7.07	8.79	1.72	1.87	92%
1996	8.77	10.11	1.34	2.03	66%
1999	11.03	11.48	0.45	2.16	21%

In accordance with the Joint Trust Agreement, an interim extrapolation of the December 1999 valuation results was performed subsequent to December 31, 2000, to bring the results forward to December 31, 2000, using the long-term actuarial assumptions, but also:

- updating actual asset values to December 31, 2000
- adjusting liabilities and payrolls for actual general salary increases in the one-year period since the valuation
- reflecting the increase to employer Basic Account contribution rates effective in 2001 (see Note 1c).

On that basis, the extrapolated results, on a funding basis, to December 31, 2000 indicated a $216 million surplus.

The Joint Trust Agreement specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the plan on a going-concern basis, the increase shall be shared equally by members and employers.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account to fund those benefits. As indexing is granted, the Basic Account receives from the Inflation Adjustment Account the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest full valuation was made as at December 31, 1999 by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $7.5 billion (1996 - $5.4 billion). Liabilities for accrued basic pension benefits were $8 billion (1996 - $6.8 billion). As a result, on an accrued benefits basis, there was a Basic Account deficiency of $0.5 billion (1996 - $1.4 billion). The next full actuarial valuation will be at December 31, 2002 for inclusion in the December 31, 2003 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.5%
- annual salary escalation rate 5.0%

In accordance with the Joint Trust Agreement, an interim extrapolation of the December 1999 valuation results was performed by the plan actuary to bring the results forward to December 31, 2000, using the same long-term actuarial assumptions, but also:

- updating actual asset values to December 31, 2000

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

- adjusting liabilities and payrolls for actual general salary increases in the one-year period since the valuation

On that basis the extrapolated deficit on an accrued benefit basis to December 31, 2000 was $90 million.

Also, for accounting purposes, a further extrapolation of accrued benefit obligations is required to the year end date. This has been done to December 31, 2001 using the same long-term actuarial assumptions as above. On that basis the extrapolated deficit is $57 million.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Benefit Administration Costs

Administration costs include general benefit administration costs incurred by the Pension Corporation, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is $6.0 million of Pension Corporation benefit administration costs and in the accounts payable balance is $0.8 million due to the Pension Corporation for those costs.

b) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2001 were $15.4 million (2000 - $15.0 million).

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided to retired members through the account.

The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

11. COMMITMENTS

The plan participates in the Private Placements Pools managed by bcIMC. These pools consist primarily of investments in limited partnerships.

As at December 31, 2001, the Teachers' Pension Plan share of commitments (over the next several years) for future investment contracts in these pools is approximately $655 million.